



**NCUA**  
National Credit Union Administration

Office of Examination & Insurance  
Office of General Counsel

# Federal Credit Union Loan Interest Rate Ceiling

## April Board Meeting

# Agenda

- Legal opinion on a floating loan interest rate ceiling
- Loan interest rate ceiling background
- Federal credit union unsecured lending trends
- Economic outlook
- Safety and soundness impact on individual federal credit unions of a 15% interest rate ceiling

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# **LEGAL OPINION ON A FLOATING LOAN INTEREST RATE CEILING**

Federal Credit Union Loan  
Interest Rate Ceiling

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# **LOAN INTEREST RATE CEILING BACKGROUND**

# Loan Interest Rate Ceiling Background

- Congress set a 12% interest-rate ceiling on federal credit union loans in 1934 that was in place through both up and down interest rate cycles.
- The Depository Institutions Deregulation and Monetary Control Act (1980) raised the ceiling to 15% and empowered the NCUA Board to authorize a higher ceiling for a period not to exceed 18 months if it determines that:
  - Money market interest rates have risen over the preceding six-month period, and
  - Prevailing interest rate levels threaten the safety and soundness of individual credit unions as evidenced by adverse trends in liquidity, capital, earnings, and growth

# Loan Interest Rate Ceiling Background

- The NCUA Board raised the ceiling to 21% in December 1980.
- The NCUA Board lowered the ceiling to 18% in May 1987, where it has remained since.
- The latest loan rate increase was approved at the January 2023 Board meeting for 18%, effective from March 11, 2023, through September 10, 2024.



# **FEDERAL CREDIT UNION UNSECURED LENDING TRENDS**

# Federal Credit Union Unsecured Lending Trends

(\$ in millions)	12/31/2011	12/31/2021	9/30/2022	12/31/2022	Quarter to Quarter Growth	Year over Year Growth	Period Growth
Credit Card	\$23,702	\$42,346	\$46,119	\$49,306	7%	16%	108%
Private Student Lending <sup>1</sup>	\$802	\$4,814	\$5,607	\$5,622	0.3%	17%	601%
Payday Alternative Loans <sup>2</sup>	\$19	\$74	\$92	\$105	15%	41%	462%
All Other Unsecured Loans	\$16,142	\$30,714	\$35,790	\$37,211	4%	21%	131%
Total Unsecured Loans	\$40,665	\$77,949	\$87,609	\$92,244	5%	18%	127%
Total Loans and Leases	\$308,845	\$632,100	\$724,070	\$749,200	3%	19%	143%

<sup>1</sup> Private Student Lending was added to the Call Report as of March 31, 2011

<sup>2</sup> Payday Alternative Loans were added to the Call Report as of December 31, 2010

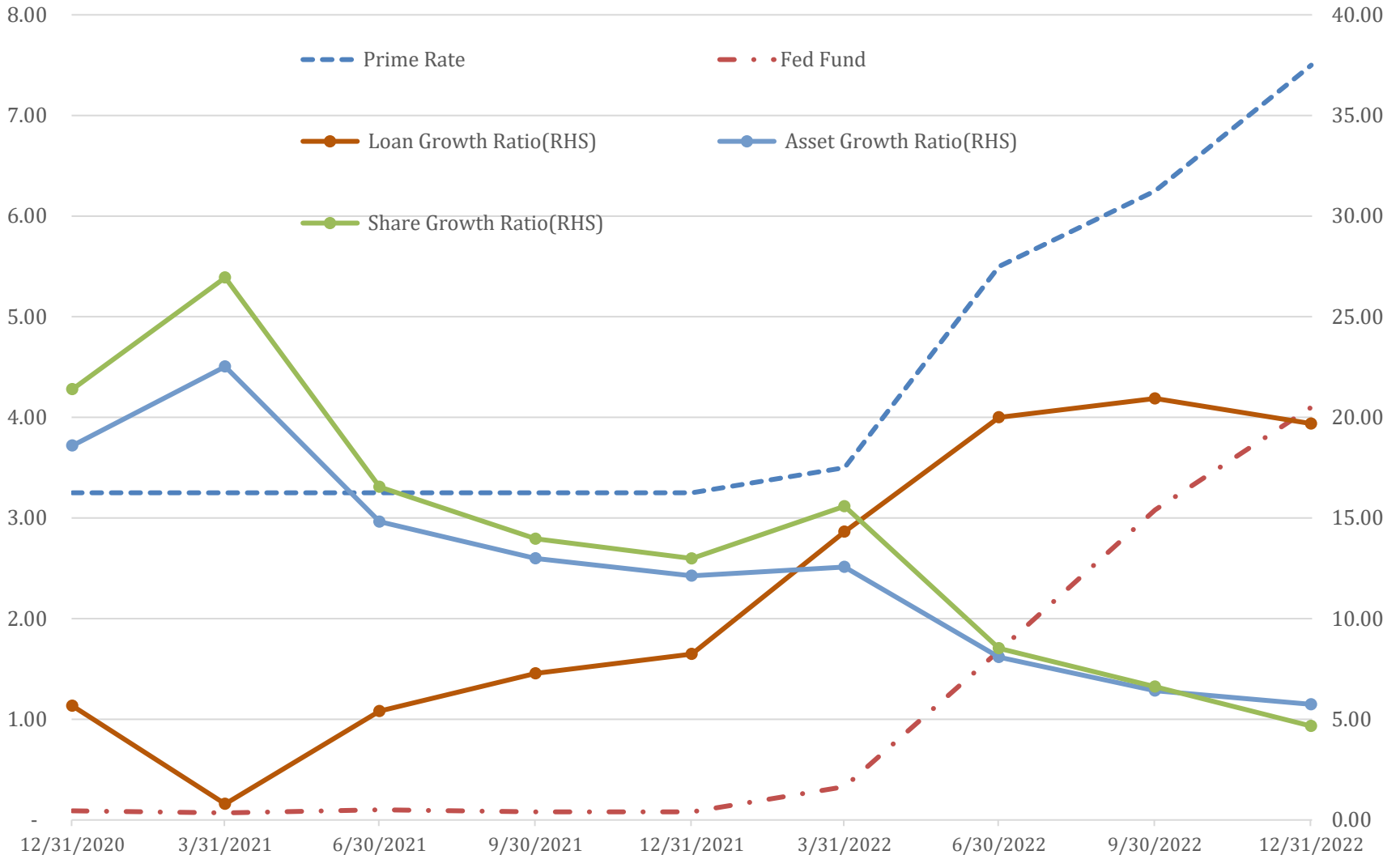


# Federal Credit Unions with Loan Rates > 15%

Peer Group by Asset size (Balance in millions)	Federal Credit Unions			Low-Income Credit Unions/Community Development Financial Institutions/Minority Depository Institutions		
	# of FCU	Loan Balance	Average Loan Rate %	# of FCU	Loan Balance	Average Loan Rate %
\$0-2 million	58	\$4	17.70%	54	\$3	17.85%
\$2-10 million	244	\$35	17.85%	183	\$28	18.06%
\$10-50 million	644	\$186	17.24%	468	\$154	17.23%
\$50-100 million	346	\$250	17.13%	248	\$215	17.16%
\$100-500 million	575	\$995	17.01%	388	\$782	17.03%
\$0.5-1 billion	130	\$598	17.13%	91	\$476	17.04%
\$1 -15 billion	163	\$3,920	16.99%	112	\$2,441	17.02%
\$15 billion +	7	\$22,799	17.29%	3	\$669	17.06%
<b>Total</b>	<b>2,167</b>	<b>\$28,787</b>	<b>17.23%</b>	<b>1,547</b>	<b>\$4,766</b>	<b>17.05%</b>

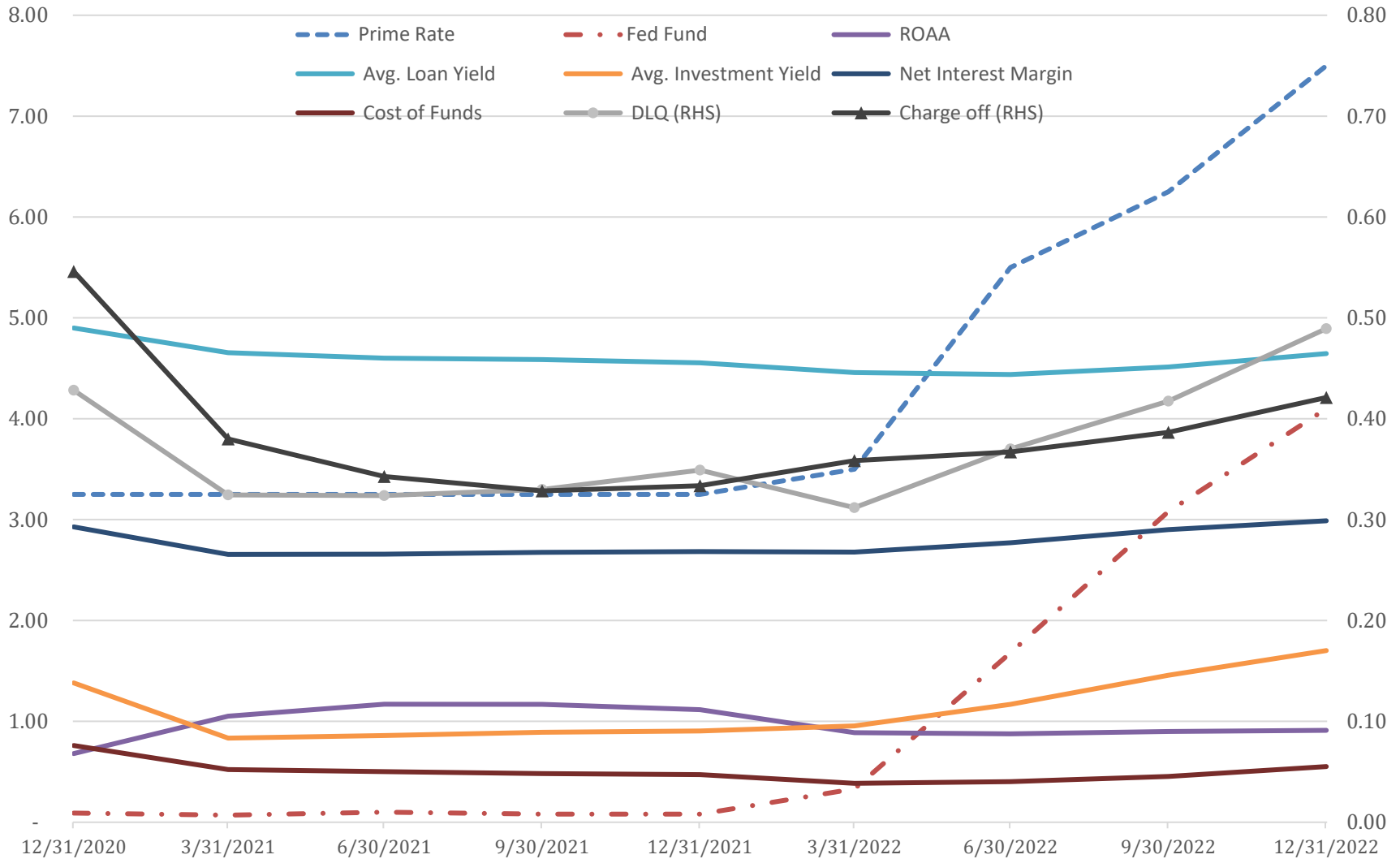
- Close to three in four federal credit unions with loan rates greater than 15% have either Low Income or Minority Depository Institution designations or are certified as Community Development Financial Institutions.
- A reduction in the loan rate ceiling to 15% would have a greater impact on low-income credit unions, community development financial institutions, and minority depository institutions.

# Recent Federal Credit Union Performance Trends



Federal Credit Union Loan  
Interest Rate Ceiling

# Recent Federal Credit Union Performance Trends



Federal Credit Union Loan  
Interest Rate Ceiling



# **ECONOMIC OUTLOOK**

# Economic Outlook

- Federal Funds Rate reached a range of 4.75%-5.00%, the highest level since October 2007
- The Prime Lending Rate stands at 7.75% currently
- The spread between 10-year and 3-month rates turned negative in October 2022 and is currently around -120 basis points
- The latest policymaker forecast suggests that the Federal Fund Rates will peak at 5.1% in 2023, and the rate cuts could follow in 2024
- The negative spread between long-term and short-term interest rates is unlikely to turn positive again during the 2023-2024 forecast period
- A negative term spread will lead to continuing compression on federal credit unions' net interest margin

**SAFETY AND SOUNDNESS  
IMPACT ON INDIVIDUAL  
FEDERAL CREDIT UNIONS OF  
A 15% INTEREST RATE  
CEILING**

# Safety and Soundness Impact on Individual Federal Credit Unions

- **Reverting the federal credit union loan rate ceiling to 15% would have a safety and soundness impact on individual federal credit unions**
  - **With a high concentration of loans above 15% rate (>10% of assets)**
  - **With net operating losses**
  - **With weak liquidity positions**

# Safety and Soundness Impact on Individual Federal Credit Unions

- **Federal credit unions with a concentration of loans above 15% rates with >10% of assets**
  - **33 with a concentration of unsecured loans with average rates of 17.29%**
- **Federal credit unions with net operating losses**
  - **299 with net losses, with a concentration of \$200 million in unsecured loans with average rates of 17.3%**



# Safety and Soundness Impact on Federal Credit Unions

- **Federal credit unions with weak liquidity positions**
  - **CAMELS 3/4/5**
    - **37 with cash and short-term liquidity ratio less than 6%**
  - **CAMELS 1 or 2**
    - **247 with cash and short-term liquidity ratio less than 6%**

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# QUESTIONS